

BUDGET RECOMMENDATION FOR 2016

The MSDGC budget is comprised of the Capital Improvement Program, and the Operating Budget. The budget in its entirety funds all necessary WWIP projects and MSDGC operations at a level that represents an increase over 2015.

I. OPERATING BUDGET

A. MONITOR ASSESSMENT AND RECOMMENDATION

The Operating Budget has two primary components; the operation and maintenance (O&M) budget and the Debt Service Budget.

1. Debt Service

For 2016, it is anticipated that there will be a Bond Issuance for approximately \$90 million that will require bond payments of approximately \$4.7 million. Total debt service on recurring and new debt will be \$119.1 million.

2. Operating & Maintenance

The Monitor provided MSDGC Guidance for the preparation of the O&M budget on July 8, 2015 and the MSDGC Rules provide further information requirements to afford the Monitor an opportunity to perform an adequate review of the O&M budget. A completeness review was provided to MSDGC on September 17, 2015. MSDGC did provide additional information, but the amount of information provided did not comply with the County's Guidance and Rules.

MSDGC proposed a budget of \$133.7 million in August 2015. Subsequently, MSDGC submitted a proposed budget of \$126.8 million. MSDGC provided some of the information requested by the Monitor or as required by Rule, but not all that was required for an appropriate County review. Therefore, where necessary the Monitor assessed the Budget request based on historic budget and actual to date information.

The basis for the 2016 County analysis of the budget was the approved 2015 O&M Budget, \$110.6 million. One adjustment to the Budget going forward was made to reflect the ending of the cooperative collection system inspection program with Duke Energy. The budgeted amount for this work for 2015 was \$5 million. In addition, there is \$300,000 for Small Business Enterprise (SBE) work that was included O & M Budget that should be in the Capital Improvement Program budget. The resulting 2016 base budget was \$105.35 million. The adjustments to the 2016 budget base to arrive at the 2016 recommended budget are reflected in summary form on Table 1.

Table 1: Operating and Maintenance Budget Recommendation

ITEM	DESCRIPTION	\$ (Million)
	Base Budget	\$105.34
1	Inflation	\$1.20
2	Personnel	\$4.40
3	Watershed Operations Monitoring -- Reduced from \$2.1 Million by MSDGC	\$2.00
4	Wastewater Treatment -- Sludge Hauling	\$1.20
5	Wastewater Collections Inspection	\$3.00
6	Wastewater Treatment Class IV supplemental Staff	\$0.20
7	Wastewater Treatment Odor Control work at the MC WWTP	\$0.15
8	Wastewater Treatment Sludge Hauling	\$0.36
9	Wastewater treatment Process & Controls Training	\$0.05
10	Security Guard Services	\$0.07
11	Energy Realignment	\$0.90
	Recommended 2016 O & M Budget	\$118.87

Detailed description of adjustments to the 2016 Base Budget

1. The first adjustment was to add \$1.2 million of inflation to the budget.
2. The second adjustment was the addition of \$4.4 million in personnel cost. \$2.8 million of the increase is the result of MSDGC under budgeting Wastewater Engineering for 2015. The cause for the budget issue was the lack of projects bid by MSDGC and thus more labor being expensed. MSDGC is planning to increase staff to reduce the cost for consultants. This increase in cost is \$900,000. And finally, there are increases for MSDGC personnel in order to fill vacancies in the amount of \$700,000.
3. MSDGC has proposed work to implement flow monitoring efforts in the watersheds for gathering and displaying information about the collection and operating systems. MSDGC has requested \$2.0 Million (recently reduced from \$2.1 million). MSDGC does not have a plan as to where and when monitors will be implemented, and it is important that the monitoring work be performed in areas critical for Phase 2 Wet Weather Improvement Plan (WWIP) planning. The Monitor is proposing that \$300,000 be released to allow MSDGC to develop a plan for the implementation of the watershed flow monitoring plan. The remainder of the budget request (\$1.7 million) will be held until the plan is submitted and approved by the County.
4. The Little Miami Incinerator is currently operational. If the Incinerator permit is not extended, MSDGC will have to haul sludge to a landfill. The expected cost increase over the operation of

the Incinerator is \$1.2 million per year (or \$100,000 per month). The monitor is recommending that for every month that the incinerator is not permitted to operate, MSDGC will have \$100,000 released to the Operating Budget to cover the sludge hauling costs.

5. MSDGC believes they need more money to adequately inspect the collection system. MSDGC is proposing to spend as much as \$5 million to inspect laterals. The Monitor agrees with their assessment of a need for more than the \$1.9 million spent in 2015 on mainline sewers; however, there is an issue in that MSDGC does not have direction or authorization to inspect laterals that the County does not own. There is direction in the Resolution that the inspection should be performed on laterals where there has been a sewer backup.

To address the issue of lateral inspections, the Monitor is recommending that MSDGC be required to prepare and provide to the County for approval a risk based inspection evaluation (Business Case Evaluation (BCE)) that will evaluate the risks associated with diverting mainline inspection funds to lateral inspection and the risks associated with not inspecting laterals.

The Monitor is recommending that \$3 million be included in the budget and released after the risk based BCE is approved by the County. It is likely that a policy or rule will be required to address the situation.

6. MSDGC has a shortage of Class IV operators. In order to have the required number of Class IV operators to maintain the operation of its treatment plants, MSDGC will be required to use contract operators. This is an unfortunate situation that the implementation of a succession plan could have avoided. The request is \$200,000. The Monitor has no choice but to recommend the funds be included in the operating budget.
7. As MSDGC continues to address odor issues that have arisen over the past several years, they will incur additional costs, some of which will be capital in nature and some will be operating expenses. MSDGC indicated that there would be \$400,000 in costs to address odor issues and that \$150,000 would be operating in nature. The Monitor recommends that this funding be included in the budget.
8. MSDGC has experienced increases in the cost for sludge and grit hauling. It was proposed that the budget be increased to reflect the \$360,000 anticipated cost increase. The Monitor did not have data to support or refute the request, and therefore supports the inclusion.
9. MSDGC proposed additional process and control training for their staff. This has been an area that has been identified as a deficiency. The request is \$50,000. The Monitor recommends these funds be included.

10. MSDGC indicated that an audit was performed that identified security deficiencies. The request is \$70,000. The Monitor recommends that funds to improve security for safety purposes should be included in the budget.
11. MSDGC requested that a \$900,000 energy re-alignment be included in the budget. For the 2015 budget, the County completely funded all energy requests for the MSDGC. However, MSDGC did not earmark the entire budgeted amount for energy and \$900,000 was diverted within the Wastewater Treatment Department to other uses. The Monitor was aware of pending potential Duke Energy Cost increases and assessments and recommended that the request for \$900,000 be included in the budget to address energy needs and potential increases.

II. Capital Improvement Program

The Capital Improvement Program (CIP) is comprised of several categories: Wet Weather Improvement Program (WWIP), WWIP Allowances, Local and Lateral Projects, Asset Management Projects, Asset Management Allowances, and Program Contingency. The Monitor provided MSDGC Guidance for the preparation of the CIP on July 8, 2015 and the MSDGC Rules provide further information requirements to afford the Monitor an opportunity to perform an adequate review of the proposed CIP projects. An MSDGC budget submittal completeness review was provided to MSDGC on September 17, 2015 indicating to MSD that the budget submittal lacked a significant amount of required information. MSDGC did provide additional information, but the amount of information provided did not comply with the County's guidance and Rules.

At the direction of the Board of County Commissioners, the Monitor began assessing the information provided by MSDGC. As an indication of the adequacy of the information provided, approximately 20 projects in the CIP would require Business Case Evaluations (BCEs) in order to assess whether the project should be included in the 2016 budget. MSDGC provided 10 of the required BCEs. In light of the limited information that MSDGC provided for the CIP projects the Monitor had to rely on historic information and their knowledge of the WWIP requirements and the District's Asset Management needs.

On November 8, 2015, the Monitor completed its assessment of the CIP and the information provided by MSDGC. The Monitor's assessment indicated that approximately \$292 Million in projects had sufficient information to be included in the CIP. The Information was provided to MSDGC and the Monitor requested a meeting to explain the assessment. On November 9, 2015, MSDGC provided a revised CIP spreadsheet that included proposed changes to 42 of the 90 projects (47% of the projects). The proposed MSDGC changes introduced on November 9, 2015 can be summarized as follows:

- 12 projects deleted by MSDGC from the CIP, reducing cost by \$19.5 million,
- 11 projects added by MSDGC to the CIP, increasing cost by \$3.0 million,
- 13 projects increased in cost by MSDGC by a total of \$6.9 million, and

- 6 projects decreased in cost by MSDGC by a total of \$1.7 million.

For the majority of the changes, little or no supporting documentation was provided. The resulting proposed CIP was approximately \$298.6 million as compared to the originally proposed CIP of \$331.2 million. Based on the revised submission and the Monitor's assessment of the information provided by MSDGC, the Monitor's recommended CIP is \$292.7 million. A discussion of the various categories is identified below. See the attached spreadsheet (Table 2; CIP Recommended Projects) for the detail concerning projects included and or removed from the CIP.

It is important to note that there are 17 or 18 projects that were in the 2015 CIP, that MSDGC will not be requesting legislation for in 2015. These projects are included in the recommendation for the 2016 CIP. The cost for the projects as identified in the recommended 2016 CIP is approximately \$200 million.

A. WWIP Projects

The Monitor is recommending that all of the projects proposed by MSDGC be included in the CIP. One project, CSO 217 and CSO 483 has had significant concerns raised by the community. MSDGC committed at a public meeting in July 2014 to evaluate alternatives recommended by the Community at the meeting. It is critical that the alternatives be thoroughly evaluated as MSDGC committed. As a result it is recommended that this project be conditioned upon MSDGC completing the alternative evaluation according to their program management plan.

The WWIP projects include primarily construction projects but a few projects are included for design in order to facilitate the construction of Phase 2 projects early in phase 2.

There are 19 projects with a cost of \$198.5 million. Of the 19 projects, two projects: the Valley Conveyance System and the Werk and Westbourne projects account for \$160 Million of the \$198.5 million.

B. WWIP Allowances.

The WWIP allowances as requested by MSDGC are recommended to be funded at the requested level, with one exception. The one exception is the Wet Weather Program Management and Support (a.k.a. PMC (Program Management Consultant)) account. MSDGC has revised the SBE funding request to be consistent with prior years' expenditures. Additionally, requests for funding for consultants that did not have specific scope were eliminated. Two items were identified as separate projects, and thus removed from the PMC. Finally, with the move by MSDGC to internalize the PMC function, the cost for the PMC function the funding for a consultant could be reduced for 11 months in 2016 representing a reduction in the required funding in the amount of \$440,000.

There are 7 WWIP allowances for a cost of \$14.3 million.

C. WWIP - Locals and Lateral Projects

The local and lateral sewer projects address issues with individual home sewage treatment systems. There are 16 projects representing a cost for either design or construction of \$4.9 million. The Monitor is recommending all of the projects proposed by MSDGC.

D. Asset Management Projects

The Monitor, at the direction of the Board, requested that MSDGC provide an assessment of the level of asset management currently being performed versus the level that would be required to achieve industry standard levels. The assessment was not provided, but MSDGC did identify that an appropriate level of annual asset management would be \$108 million to \$125 million (including allowances). The County has assessed that MSDGC has been spending for asset management at a level of approximately \$65 million per year (including allowances).

There are 27 asset management projects recommended by the Monitor of the 32 proposed by MSDGC representing a cost of \$36 million. Several projects that have been proposed do not have the required information to allow the Monitor to make a recommendation to the Board. Most of these projects are being included conditionally so that MSDGC can prepare the appropriate information for the projects to advance. One major project is being moved to the 2017 FY CIP due to dependency on the completion of a 2016 CIP project.

E. Asset Management Allowances

There were 11 allowances originally proposed by MSDGC. One of the allowances, Water Quality Program, is not being recommended for funding within the CIP since the scope proposed would more appropriately be classified as an operating expense and they are now addressed in that budget.

The Monitor recommends a 12th allowance be included in the CIP. This is an allowance for additional Asset Management, recommended to be used for the most critical assets. The amount recommended is \$10 million. This is to move the district toward the level of asset management that the District should be targeting based on best practices within the industry. The amount to be recommended for the asset management allowances is \$27.5 million.

The combination of the asset management accounts (allowances and specific projects) is approximately \$63.5 million. Other projects proposed for asset management did not have the level of documentation to warrant being included in the CIP.

F. Program Contingency

Program contingency for the entire CIP is included. As of 2014 and going forward, the contingency line item was removed from each project and accumulated in the program contingency account. The amount recommended for the account is \$11.5 million.

III. Summary

The following table summarizes the recommendations by the Monitor based on the information provided by MSDGC.

Table 3: Budget Summary

ITEM	DESCRIPTION	Recommended
		Budget (\$ Million)
1	Operating & maintenance	\$118.87
2	Debt Service	\$119.10
3	Operating Budget	\$237.97
4	CIP	\$292.70
5	MSDGC 2016 Budget	\$530.67